

**REPORT OF THE AUDIT OF THE  
LEWIS COUNTY  
CLERK**

**For The Year Ended  
December 31, 2011**



**ADAM H. EDELEN  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE LEWIS COUNTY CLERK**

**For The Year Ended  
December 31, 2011**

The Auditor of Public Accounts has completed the Lewis County Clerk's audit for the year ended December 31, 2011. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$41,076 from the prior year, resulting in excess fees of \$9,245 as of December 31, 2011. Revenues increased by \$30,438 from the prior year and expenditures increased by \$71,514.

#### **Report Comment:**

2011-01 The County Clerk's Office Lacks Adequate Segregation Of Duties

#### **Deposits:**

The County Clerk's deposits were insured and collateralized by bank securities.



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**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable John Patrick Collins, Lewis County Judge/Executive  
The Honorable Glenda K. Himes, Lewis County Clerk  
Members of the Lewis County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Lewis County, Kentucky, for the year ended December 31, 2011. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2011, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 20, 2012 on our consideration of the Lewis County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable John Patrick Collins, Lewis County Judge/Executive  
The Honorable Glenda K. Himes, Lewis County Clerk  
Members of the Lewis County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2011-01 The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Lewis County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen  
Auditor of Public Accounts

July 20, 2012



LEWIS COUNTY  
 GLENDA K. HIMES, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2011

Revenues

Libraries and Archives Grant		\$	25,663
State - Revenue Supplement			61,283
State Fees For Services			3,470
Fiscal Court			2,094
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	385,952	
Usage Tax		599,898	
Tangible Personal Property Tax		768,828	
Other-			
Fish and Game Licenses		4,638	
Marriage Licenses		3,018	
Deed Transfer Tax		14,193	
Delinquent Tax		138,664	1,915,191
			<hr/>
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		12,664	
Real Estate Mortgages		15,939	
Chattel Mortgages and Financing Statements		34,206	
All Other Recordings		23,653	
Charges for Other Services-			
Copywork		5,252	
Notary Fees		608	
Postage		370	92,692
			<hr/>
Other:			
Miscellaneous			820
Interest Earned			135
			<hr/>
Total Revenues			2,101,348

The accompanying notes are an integral part of this financial statement.

LEWIS COUNTY  
 GLENDA K. HIMES, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2011  
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	270,720	
Usage Tax		581,900	
Tangible Personal Property Tax		279,080	

Licenses, Taxes, and Fees-

Fish and Game Licenses		4,509	
Delinquent Tax		15,332	
Legal Process Tax		11,158	
Affordable Housing Trust		17,274	\$ 1,179,973

Payments to Fiscal Court:

Tangible Personal Property Tax		81,795	
Delinquent Tax		14,560	
Deed Transfer Tax		13,483	
Tax Bill Preparation		3,207	113,045

Payments to Other Districts:

Tangible Personal Property Tax		377,010	
Delinquent Tax		63,192	440,202

Payments to Sheriff

10,962

Payments to County Attorney

17,639

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries		94,812	
Part-Time Salaries		3,835	
Overtime		8,784	
Unemployment Insurance		103	

Employee Benefits-

Employer's Share Social Security		13,365	
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Contracted Services-

Advertising		2,112	
Scanning Records		26,275	

The accompanying notes are an integral part of this financial statement.

LEWIS COUNTY  
 GLENDA K. HIMES, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2011  
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Materials and Supplies-			
Office Supplies	\$	35,239	
Other Charges-			
Conventions and Travel		4,349	
Dues		660	
County Clerk Bond		901	
Libraries and Archives Grant		25,663	
Postage		5,056	
Refunds		3,649	
Miscellaneous		1,602	
Capital Outlay-			
Office Equipment		23,034	\$ 249,439
Total Expenditures			<u>\$ 2,011,260</u>
Net Revenues			90,088
Less: Statutory Maximum			<u>75,404</u>
Excess Fees			14,684
Less: Expense Allowance		3,600	
Training Incentive Benefit		<u>1,839</u>	<u>5,439</u>
Excess Fees Due County for 2011			9,245
Payment to Fiscal Court - March 13, 2012			<u>9,245</u>
Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

LEWIS COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2011 services
- Reimbursements for 2011 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2011

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LEWIS COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2011  
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent for the first six months and 18.96 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Lewis County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Lewis County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LEWIS COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2011  
(Continued)

Note 4. Grant

The Lewis County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$25,663. Funds totaling \$25,663 were expended during the year. The unexpended grant balance was \$0 as of December 31, 2011.

Note 5. Software Maintenance Agreement

The office of the County Clerk entered into a 12-month agreement with Data Records Management Services, LLC on June 23, 2009. The agreement automatically renews for an additional 12 months and was in effect through December 31, 2011. The purpose of the agreement was to provide computer software updates and maintenance. The agreement required quarterly payments of \$1,706. The Office of the County Clerk was in compliance with the terms of the agreement as of December 31, 2011.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable John Patrick Collins, Lewis County Judge/Executive  
The Honorable Glenda K. Himes, Lewis County Clerk  
Members of the Lewis County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Lewis County Clerk for the year ended December 31, 2011, and have issued our report thereon dated July 20, 2012. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Lewis County Clerk's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying comment and recommendation as item 2011-01 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lewis County Clerk's financial statement for the year ended December 31, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Lewis County Clerk's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Lewis County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a long horizontal flourish extending to the right.

Adam H. Edelen  
Auditor of Public Accounts

July 20, 2012

COMMENT AND RECOMMENDATION



LEWIS COUNTY  
GLENDA K. HIMES, COUNTY CLERK  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2011

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2011-01 The County Clerk's Office Lacks Adequate Segregation Of Duties

The County Clerk's Office has a lack of segregation of duties. A proper segregation of duties consists of separate employees being responsible for custody of assets, recording transactions, and reconciling accounts to the records. The County Clerk records amounts in the ledgers, prepares monthly bank reconciliations, and signs checks for disbursements. Absence of a proper segregation of duties increases the possibility that errors and financial misstatements may go undetected. The County Clerk should segregate these duties or implement compensating controls. Having an independent person prepare the bank reconciliation and agree the daily checkout sheets to the receipts ledger and deposit are examples of compensating controls. We recommend the County Clerk implement and document compensating controls.

*County Clerk's Response: I am in the process of training and assigning employees to prepare ledgers, bank statement reconciliations, reports and proofing records to help with the segregation of duties.*

